

Washington State Department of Commerce

Washington Small Business Credit Initiative

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Innovation is in our nature.

Introductions

Jane Swanson,

Project Manager of the Washington Small Business
Credit Initiative and the Capital Access Program

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*Special thanks to our speakers Mr. Casey Hogan of
Pacific Continental Bank & Mr. Rick Bonacker of West
Coast Bank

Washington Small Business Credit Initiative

- U.S. Treasury allocation of \$19.7M
- Small Business Jobs Act of 2010 – Goals:
 - Leverage public funds with private capital >10:1 to facilitate small business growth and job creation
 - Outreach to underserved communities
- 3 approved programs:
 - **Craft3**– CDFI network; direct loans and loan participations
 - **W Fund** – VC fund; life sciences, IT, alternative energy; early stage
 - **Capital Access Program (CAP)** – Banks; additional loss reserves for loans



Craft 3 Fund Product Line

- **Formerly Banked:** Business loans \$1-5M
 - 7 years, 6-8%, Working Capital, Lines, Inventory
- **Indian Country:** Sovereign and individual \$1-5M
 - 7-15 years, 6-8%, commercial purposes (no gaming)
- **Non-Bank Participations:** Co-lending with non-bank non-profits to small businesses
 - Participations: \$100-500,000, 7 years, 7-9%
 - Wholesale Loans: Up to \$1M for on-lending to business



Differentiated Customer: The Formerly Banked

Historically

- Unbankable due to history, lack of collateral, status
- Start-ups, growth aspiration
- Immature management
- Weak and unstable margins and profitability
- Unproven or weak growth proposition
- Marginal balance sheet over leveraged

Differentiated

- Banked in 2005 with maturing or disappearing credit
- Historically successful
- Established management
- 2008-10 operating losses but evidence of correction
- Credible sales opportunities near or in hand
- Weakened balance sheets

What is CAP?

- Contributions into your banks reserve account
- Allows participating lenders to approve loans and retain or attract small business customers.
- Aim to maintain valued customer relationships with participating bank.
- Support financing for small businesses fallen to marginal by contributing to lenders' loan loss reserves.
- Borrower's credit is solid, but not enough to secure traditional bank loans.
- Broad eligibility. Most businesses qualify including non-profits.



Who Can Participate?

Financial Institutions serving WA businesses:

- Banks
- Credit Unions
- Community Development Financial Institutions (CDFI)

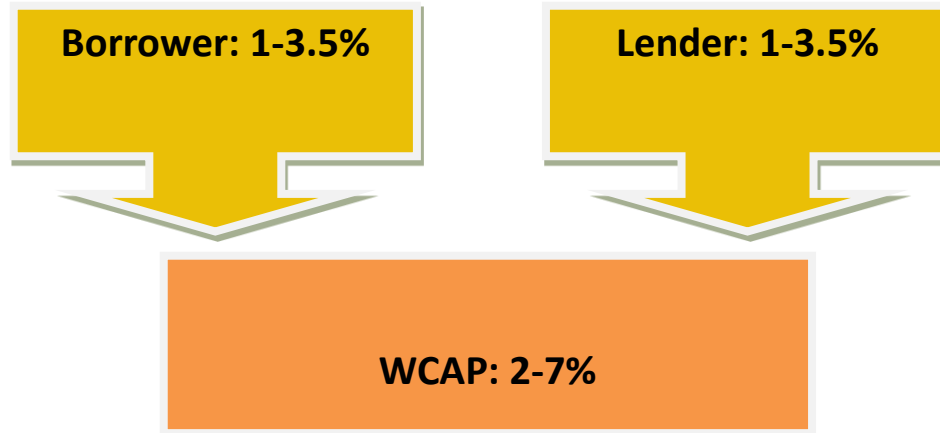


How CAP Works...

- Loan enrollment is fast and easy.
- Commerce's role simply to ensure that the borrower and loan purpose meet eligibility criteria.
- Lender and borrower pay premiums into a designated reserve account at the participating bank.
- Commerce matches lender and borrower premiums on a loan-by-loan basis.
- The lender can make claims against funds to cover losses on enrolled loans/LOCs.
- Losses can be recovered on loans that are written off and many occur prior to collateral collection.



Growing the Reserve Account



Scenario:

- Lender enrolls 10 loans totaling \$500,000
- \$60,000 goes in the loss reserve account (using an average premium of 3% each from the lender and borrower, 6% from CAP for a total of 12%)
- An enrolled loan defaults with a \$50,000 outstanding balance (P&I)
- Lender is reimbursed 100% of the claimed loss, \$10,000 remaining balance.



| What Type of Loans Qualify?

“Business Purpose,” term loans and lines of credit including:

- Start up costs
- Purchase of equipment/inventory
- Other projects including working capital
- Acquisition, construction, or renovation of a place of business
- Franchise fees



INELIGIBLE LOAN PURPOSES

- Financing a non-business purpose
- Passive real estate investment
- Refinance the financial institution or an affiliates existing debt without a new credit determination (delinquency cannot be refinanced).
- Fund any unguaranteed portion of an SBA loan
- Purchase any portion of ownership interest from existing owner (cash out)
- Reimburse funds owed to any owner, including any equity injection or injection of capital for the business' continuance
- Repay delinquent federal or state income taxes unless the borrower has a payment plan in place with the relevant tax authority
- Repay taxes held in trust or escrow



How Does the Process Work?

- 1-page One time Bank Participation Application
- Standard Bank Participation Agreement
- 2-page Loan Enrollment Form with Certification
- 1-page Loan Modification Form
- 1-page Loan Claim Form
- Reporting is quarterly / annually



Flexibility for Banks

- Lender determines source of their premium funds (e.g. the borrower)
- Flexibility on the premium rates to invest (2-7%*)
- Lender chooses to enroll all or a portion of a loan, including increases
- May refinance enrolled loans without having to obtain Commerce approval
- Enrolled loans may be modified by extending terms / amending covenants / releasing collateral without needing Commerce approval



Program Perks

- Expand your small business base
- Loan enrollment approvals are fast and rely only upon business/purpose qualifications not loan terms
- The reserve funds stay on account with the lender
- The full amount in the lender's reserve account is available to cover any claimed loss from enrolled loans
- Reporting requirements are minimal
- Commerce takes no collateral position at loan enrollment
- Some ability to complete claim from subsequent premiums



Testimonials

We will now be hearing from two bankers who have participated in the very similar Oregon State CAP, who are willing to share their experiences.

Casey Hogan, Chief Credit Officer
Pacific Continental Bank

Rick Bonacker, Small Business Underwriting Manager
West Coast Bank



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CAP Loan Scenarios

Let's go through some examples to see how CAP could work for your institution.



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Scenario #1 : Modification

The borrower wants to increase their existing enrolled loan by \$20k to purchase additional equipment and extend the term out. How does this affect loan enrollment?

It is at the bank's discretion whether they chose to enroll the increase or not. If they choose to enroll the increase, then the reserve contributions from all three parties are pro-rata and would only apply to the increased amount as the former amount was already enrolled.



Scenario #2 : Existing Loan

Your institution has an existing loan which you wish to enroll.
Can you?

To enroll an existing loan a new credit determination must be made. If approved the loan can be enrolled **ONLY IF** that loan was not previously delinquent.



Scenario #3 : RLOC

You have enrolled a revolving line of credit that has now matured. Do you need to re-enroll it and pay new premiums?

Each bank has the flexibility to determine whether they want the initial premium and subsequent renewals of a LOC to stay enrolled OR they may choose to require the borrower to re-enroll at each renewal (require a new enrollment form and premiums).



Scenario #4 : Claim

An enrolled \$100,000 loan has been paid down to \$70,000, but the bank is forced to charge off the remainder. Can the full \$70,000 be reimbursed from the CAP loss reserve account?

The bank could issue a claim to CAP upon write-off for the amount of the write-off including 90 days worth of interest owed as well as some collection costs up to the total balance currently in the reserve account. If the Reserve funds were insufficient, the additional \$ could be collected by the bank up to 24 months after the original claim was made from funds in the reserve up to 75% of the reserve balance at the time the follow-up claim was made.

Scenario #5 : Reimbursement

The Lender makes and collects on a claim. Afterwards money was recovered through the sale of collateral. What is the Lender's obligation to CAP?

The Lender reimburses the CAP reserve account up to the amount of funds they received from the related claim. If the collateral funds exceed the monies received for the related claim, the amount up to the claim is put back into the account and the remainder is kept by the Lender. The Lender would notify CAP either way.





Time to ask those questions!



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Apply Today for Your Bank

The Lender CAP Application is available on our website at

www.commerce.wa.gov/site/1400/default.aspx

or you can request one directly by contacting me at either

WSBCI@Commerce.Wa.Gov

or over the phone at (360) 725-4062.



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Linked Deposit Loans

The program links the deposit of state funds to loans made by participating financial institutions to qualified minority and women-owned businesses. The deposit of state funds is made at below market rates. The savings are then passed on by the bank to the Linked Deposit borrowers in the form of an interest rate reduction not to exceed two percent. Max. Loan size is \$1 million. Please note, the LDP is not a loan guarantee program.

This program is available to Banks, CDFI's and certified firms.



Linked Deposit Participation

OMWBE Certified firms are eligible to participate in LDP and include:

- Minority Business Enterprises (MBE)
- Women's Business Enterprise (WBE)
- Minority Women's Business Enterprise (MWBE)
- Combined Business Enterprise (CBE)



Contact Information for Linked Deposit

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